

## Message Text

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ACTION EUR-12

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EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

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SUBJECT: EC COMMISSION UPDATES ITS 1976 ECONOMIC FORECAST AND MEMBER STATES REACT

REF: (A) 75 EC BRUSSELS 11182, (B) EC A-50, (C) 75 EC A-509

1. BEGIN SUMMARY: THE COMMISSION'S MOST RECENT 1976 ECONOMIC FORECAST REAFFIRMS ITS PROJECTION OF A GENERAL BUT MODEST ECONOMIC UPTURN OF 3-

3.5 PERCENT REAL GDP GROWTH IN THE EC. SOME MEMBER STATES BELIEVE THESE

GROWTH FORECASTS ARE TOO LOW BUT ALL AGREE THAT THEY CONTINUE TO FACE THE DUAL PROBLEMS OF HIGH UNEMPLOYMENT AND CONTINUED PRICE INFLATION. THE EC ECONOMIC POLICY COMMITTEE CALLS FOR A POLICY OF BALANCED BUT STEADY ECONOMIC GROWTH. END SUMMARY.

2. INCREASED CONFIDENCE: EC COMMISSION FINANCE OFFICIALS ARE FORECASTING

A RELATIVELY MODEST BUT GENERAL ECONOMIC UPTURN IN ALL MEMBER STATES IN 1976. THEIR FEBRUARY 1976 QUARTERLY FORECAST REAFFIRMS EARLIER

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PROJECTIONS (SEE REFS A, C). THEY NOW GIVE A HIGH CONFIDENCE RATING TO THEIR FORECAST. OVERALL THE EC REAL GDP IS ESTIMATED TO RISE BY 3-

3.5 PERCENT IN 1976 COMPARED TO A FALL OF 2.5 PERCENT LAST YEAR. THE MAJOR REVISION IS RAISING THE UK REAL GROWTH TO 1.8 PERCENT FOR 1976. PREVIOUSLY IT WAS FORECAST AT ZERO. FRG, DUTCH AND FRENCH OFFICIALS ARE CRITICAL OF THE GROWTH FORECASTS LISTED BELOW, STATING THAT THESE ESTIMATES WERE TWOO CONSERVATIVE. COMMISSION OFFICIALS DISAGREE, HOWEVER, BECAUSE THEY BELIEVE THE MEMBER STATES ARE PLACING TOO MUCH EMPHASIS ON RECENT SHORT-TERM STOCK ADJUSTMENTS. THE COMMISSION ALSO REVISED DOWNWARD UNEMPLOYMENT ESTIMATES FOR DENMARK, GERMANY AND IRELAND. IT INCREASED THE UK ANNUAL AVERAGE UNEMPLOYMENT ESTIMATE FOR 1976 FROM 5.2 TO 5.7 PERCENT.

GDP VOLUME                      GDP PRICE DEFLATOR  
ANNUAL AVERAGE                      ANNUAL AVERAGE  
PERCENT CHANGE ON PRECEDING YR.    PERCENT CHANGE ON PRECEDING YR.

	1974	1975	1976	1974	1975	1976
DEN.	1.6	-1.2	4	10.2	11.5	10
FRG.	0.6	-3.6	4	6.8	8.3	4
FR.	3.8	-2.1	4.1	11.4	12.5	10.5
IR.	0.4	-3.6	2.5	8.1	25.3	17.5
IT.	3.4	-3.3	2	16.6	19.9	12
NETH.	2.8	-1.7	2.6	9.4	11.3	9.7
BELG.	3.9	-2.5	2.1	12.7	13.1	10.3
LUX.	3.5	-7.7	2.1	12.5	3.1	8.6
UK.	0.7	-1.4	1.8	12.6	26.3	15.2

UNEMPLOYMENT RATE  
ANNUAL AVERAGE PERCENT OF                      TOTAL UNEMPLOYED  
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	CIVILIAN LABOR FORCE			ANNUAL AVERAGE IN 1,000'S		
	1974	1975	1976	1974	1975	1976
DEN.	2.6	5.4	4.7	56.6	120	105
FRG.	2.2	4.1	3.8	583	1074	1000

FR. 2.3	3.8	4.4	501	840	993
IR. 5.7	8.3	10.0	64	95	125
IT. 2.9	3.3	3.5	560	654	675
NETH.3.0	4.3	5.1	143	206	245
BELG. 2.6	4.5	5.4	101	178	214
LUX.			1	1.5	
UK 2.5	3.9	5.7	637	996	1439

1- UNEMPLOYMENT RATES ARE NOT COMPARABLE BETWEEN COUNTRIES.  
END OF YEAR FIGURES CONTAINED IN EC BRUSSELS 933.

3. MEMBER STATE COMMENTS: THE EC SHORT-TERM ECONOMIC POLICY COMMITTEE DISCUSSED THE ABOVE FORECASTS AT ITS FEBRUARY 6 MEETING. IT RECOGNIZED THAT THE EC FACED THIS YEAR THE DUAL PROBLEMS OF AN AVERAGE UNEMPLOYMENT RATE OF 4.5 PERCENT AND AN ANNUAL RATE OF PRICE INFLATION OF 10 PERCENT, AS MEASURED BY THE CONSUMER PRICE INDEX. TO DEAL WITH THESE CONFLICTING PROBLEMS THE COMMITTEE FELT THE MEMBER STATES SHOULD PURSUE POLICIES OF MODERATE BUT STEADY GROWTH. THIS WOULD MEAN CONTINUED HIGH LEVELS OF UNEMPLOYMENT, PROBABLY THROUGH 1977, BUT FURTHER EXPANSION COULD CAUSE A RESURGENCE OF PRICE INFLATION.

COMMISSION OFFICIAL ESTIMATE, FOR EXAMPLE, THAT DESPITE A 4 PERCENT GROWTH RATE THIS YEAR, FRENCH UNEMPLOYMENT WILL INCREASE BY MORE THAN 100,000. ADDITIONAL EXPANSIONARY MEASURES TO ALLEVIATE THIS PROBLEM WOULD, HOWEVER, PROMPTLY  
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PUSH UP PRICES AND CAUSE A DETERIORATION IN THE BOPS.

4. NEW COMMITTEE LEADERSHIP: THE ECONOMIC POLICY COMMITTEE HAS SELECTED A NEW CHAIRMAN, SIR BRIAN HOPKINS, ECONOMIC COUNSELOR AND SECOND PERMANENT SECRETARY OF THE UK TREASURY, WHO REPLACES MALINVAUD OF THE FRENCH FINANCE MINISTRY. THE COMMITTEE HAS ALSO SELECTED THE FOLLOWING DEPUTY CHAIRMEN TO HEAD UP ITS THREE WORKING GROUPS: (1) MIDDLEHOEK, DUTCH FINANCE MINISTRY, BUDGET W. G.; (2) CORTESSE, FRENCH FINANCE MINISTRY, SHORT-TERM OUTLOOK W.G.; AND MALDAGUE, BELGIAN FINANCE MINISTRY, MEDIUM-TERM OUTLOOK, W.G.  
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